

ALABAMA DEPARTMENT OF REVENUE  
ADMINISTRATIVE CODE

CHAPTER 810-3-162

Shareholder's Computation of Taxable Income

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810-3-162-.01 Income to be Reported by Shareholders.

(1) (a) For taxpayers who are shareholders of an Alabama S corporation with a tax year which began before January 1, 1990, each shareholder of an Alabama S corporation shall include in his individual Alabama income tax return each year his pro rata share of the:

1. separately stated items of income, loss, deduction or credit attributed to Alabama by the Alabama S corporation for the corporation's taxable year which ends with or during the individual's tax year; and

2. nonseparately stated items of income, loss, deduction or credit attributed to Alabama by the Alabama S corporation for the corporation's taxable year which ends with or during the individual's tax year.

(b) For taxpayers who are shareholders of an Alabama S corporation with a tax year which began after December 31, 1989 and before January 1, 1997-

1. Each resident shareholder shall include in his individual Alabama income tax return each year his pro rata share of the:

- (i) separately stated items of income, loss, deduction or credit of the Alabama S corporation for the corporation's taxable year which ends with or during the individual's tax year; and

- (ii) nonseparately stated items of income, loss, deduction or credit of the Alabama S corporation for the corporation's taxable year which ends with or during the individual's tax year.

2. Each nonresident shareholder shall include in his individual Alabama income tax return each year his pro rata share of the:

- (i) separately stated items of income, loss, deduction or credit attributed to Alabama by the Alabama S corporation for the corporation's taxable year which ends with or during the individual's tax year.

- (ii) nonseparately stated items of income, loss, deduction or credit attributed to Alabama by the Alabama S corporation for the corporation's taxable year which ends with or during the individual's tax year.

(c) For taxpayers who are shareholders of an Alabama S corporation with a tax year which began after December 31, 1996, each shareholder of an Alabama S corporation shall include in his individual Alabama income tax return each year his pro rata share of the:

1. separately stated items of income, loss, deduction or credit attributed to Alabama by the Alabama S corporation for the corporation's taxable year which ends with or during the individual's tax year; and

2. nonseparately stated items of income, loss, deduction or credit attributed to Alabama by the Alabama S corporation for the corporation's taxable year which ends with or during the individual's tax year.

- (2) Any item included in the shareholder's pro rata share shall retain the same character as if received directly by the shareholder from the source. For example, the shareholder's pro rata share of interest income earned by the Alabama S corporation from United States government obligations would be exempt to the shareholder as if received directly by that shareholder from the U.S. Government.

- (3) If the sum of the separately stated and nonseparately stated items of income, loss and deduction is a net loss attributed to Alabama, that loss may be deducted on the individual return of the shareholder to the extent permitted below.

- (a) The net loss to be deducted on the return may not exceed the shareholder's Alabama adjusted basis in the stock of the Alabama S corporation, plus the shareholder's Alabama adjusted basis in any indebtedness of the Alabama S corporation to the shareholder.

1. For each year, the limitation is the Alabama adjusted basis of the shareholder's stock as determined under Reg. 810-3-164-.01(1), plus the Alabama adjusted basis of any indebtedness due the shareholder as determined under Reg. 810-3-164-.01(2).

2. Any loss in excess of the Alabama adjusted basis of the stock and indebtedness may be carried forward to the next succeeding year.

3. The Alabama adjusted basis of the stock and/or any indebtedness due the taxpayer will not be less than zero.

- (4) (a) For taxpayers who are shareholders of an Alabama S corporation with a tax year which began before January 1, 1990, no credit for income taxes paid other states provided in §40-18-21 is allowable with respect to a shareholder's pro rata share of an Alabama S corporation's separately stated and nonseparately stated income, as an Alabama S corporation reports only income apportioned and/or allocated to Alabama and therefore includes no income derived from sources without Alabama. See also Reg. 810-3-21-.01. It should also be noted that no deduction is allowable to either the Alabama S corporation or the shareholders for net income taxes paid other state, local and/or foreign governments. See §40-18-15(3)(h) and Reg. 810-3-15-.04(4)(a).

(b) For taxpayers who are shareholders of an Alabama S corporation with a tax year which began after December 31, 1989 and before January 1, 1997-

1. resident shareholders include in gross income their deemed distributive share of the entire income or loss of the Alabama S corporation. Therefore, resident shareholders are allowed a credit for income taxes paid by the shareholder to any other state in which the corporation is treated as an S corporation.

2. nonresident shareholders include in gross income their deemed distributive share of the income or loss of the Alabama S corporation apportioned and allocated to Alabama. Therefore, no income from sources without Alabama is included and no credit is allowable to the nonresident shareholder for income taxes paid by the shareholder to any other state in connection with such income.

(c) For taxpayers who are shareholders of an Alabama S corporation with a tax year which began after December 31, 1996, each shareholder shall include in gross income their deemed distributive share of the income or loss of the Alabama S corporation apportioned and allocated to Alabama. Therefore, no income from sources without Alabama is included and no credit or deduction is allowable to the shareholder or the Alabama S corporation for income taxes paid by the shareholder or the corporation to any other state, local or foreign government in connection with such income.

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